



Local outlook: November 2008

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The global crisis has affected us but our economy is in a fairly good condition to weather the storm.

Growth in the South African economy slowed down in the third quarter of 2008, mainly due a decline in the output of the manufacturing and trade sectors. This does not mean we are in a recession.

It is expected that the government will continue to invest in infrastructure and large projects and this will contribute to economic growth in the country.

There are other international and local developments that will alleviate pressure on the economy, such as: the drop in oil and petrol prices and a decline in food inflation leading to lower consumer price inflation and a reduced demand for credit.

While 2009 is expected to be a tough year for consumers, we believe that have seen the turning point for inflation and interest rates should start coming down early in the year.

Slow economic growth does not mean recession

One of the outcomes of the current financial crisis has been the slowdown in the global economy.

South Africa was already headed for slower growth in 2008, mainly because of high inflation and higher interest rates affecting households that were already in debt. Growth in household consumption has dropped from 3.3% in the first quarter 2008 to just 1.2% in the second quarter. To put this in perspective: the annual growth rate was 8.2% in 2006 and 7% in 2007. This explains why the retail sector has been in decline for the past few months and this has contributed to the slowdown in economic growth.

South Africa's economic growth after allowing for inflation slowed from 1.6% in the second quarter of 2008 to 0.2% in the third quarter.

It is important to understand that slower economic growth does not mean we are in a recession. A recession happens when there are two consecutive quarters of *negative* growth, and this has not happened in South Africa.

Government spending will support economic growth

Although demand from households and companies will be lower in 2008 and 2009, it is expected that significant capital expenditure from the government will support economic growth.

In the medium-term budget policy statement, the minister of finance confirmed that budgeted spending on infrastructure like roads, airports, harbours and stadia will continue in preparation for the 2010 World Cup.

Projects by the two major public utilities, Transnet and Eskom, are set to continue beyond 2010.

International and local developments will help stimulate growth

Although the outlook for growth in the global economy and South Africa is poor, our country's economic fundamentals remain solid. There are developments in the global economy and here at home that will help stimulate growth.

These are:

Drop in oil and petrol prices

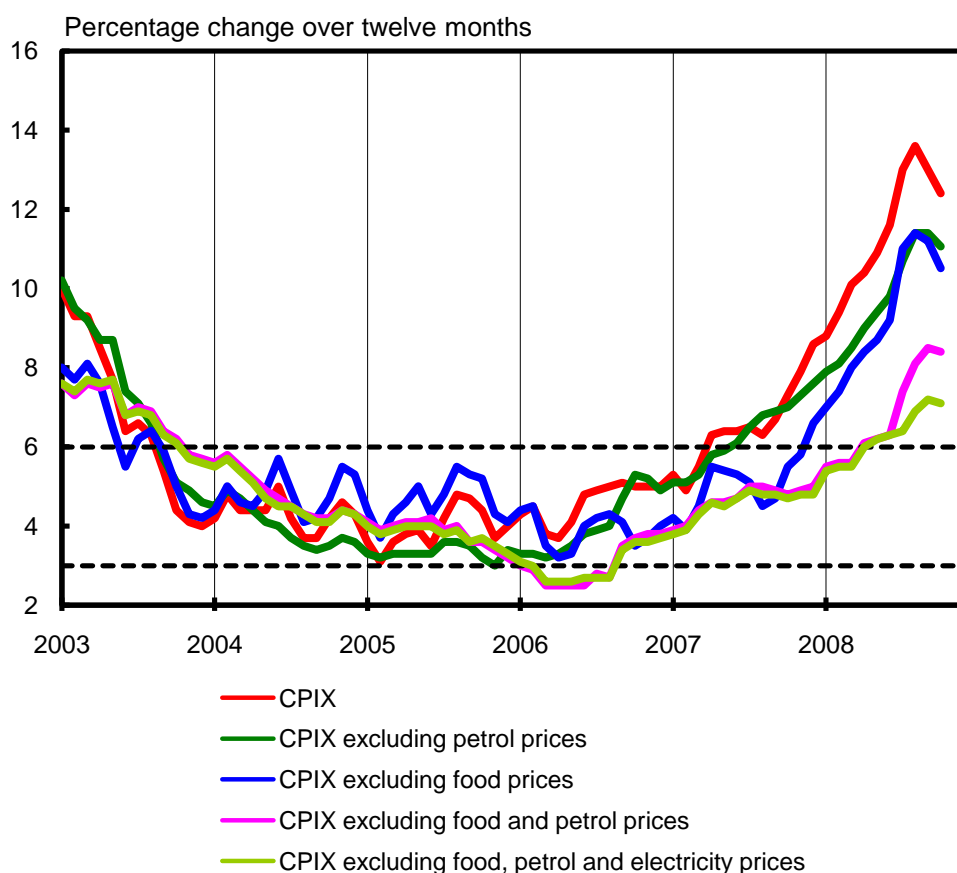
The oil price, a major driver of global inflation, dropped from a high of \$147 a barrel in July to less than \$55 a barrel in late November. Domestic petrol prices have already dropped four times since August.

Decline in food inflation

The rate of increases in global food prices and domestic agricultural food prices is slowing down. This means that food inflation will start to decline.

Consumer price index (CPIX)

CPIX inflation is a measure of the price increases of a basket of consumer goods and services over time. This basket excludes the mortgage bond repayments, and hence CPIX inflation does not take into account the inflationary effect of changes to interest rates which will affect these bond repayments. The graph below shows the South African CPIX inflation from January 2003 to October 2008

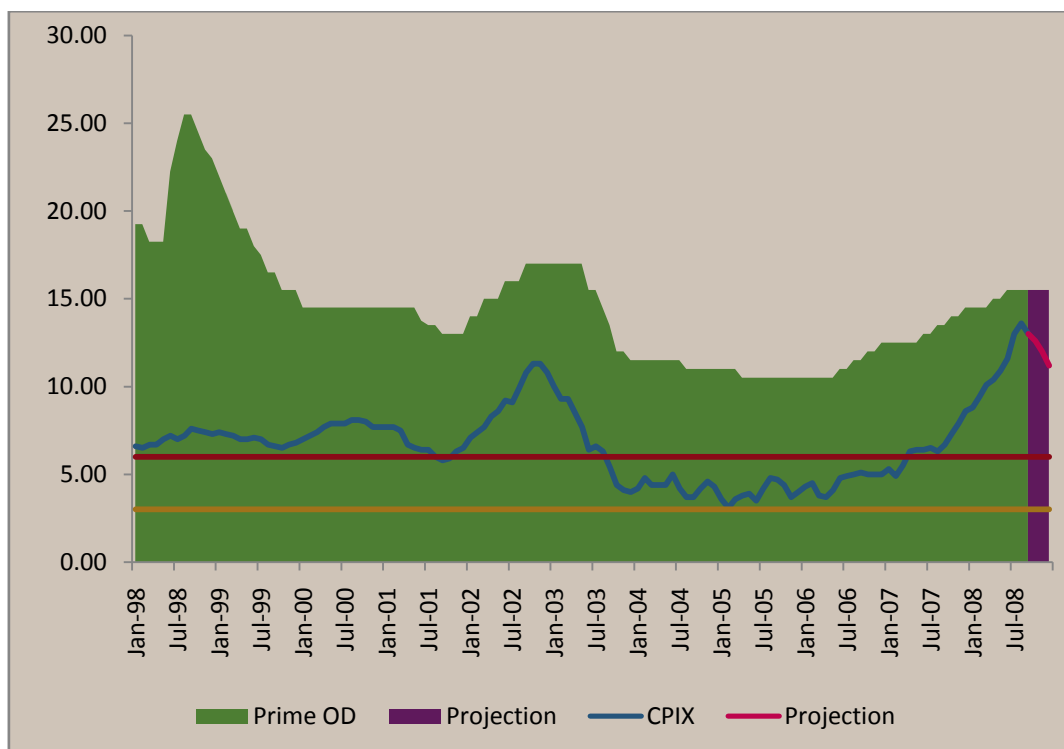


Sources: Statistics South Africa and South African Reserve Bank calculations

At the release of the latest CPIX for October, inflation as measured by the annual change on CPIX dropped from 13.0% in September to 12.4% in October.

Outlook for inflation expected to improve

Technical changes to the way CPIX is measured will be introduced in February 2009. This is expected to reduce the CPIX inflation measure by a few percentage points. This drop in inflation will further enhance the prospects of an interest rate cut soon.



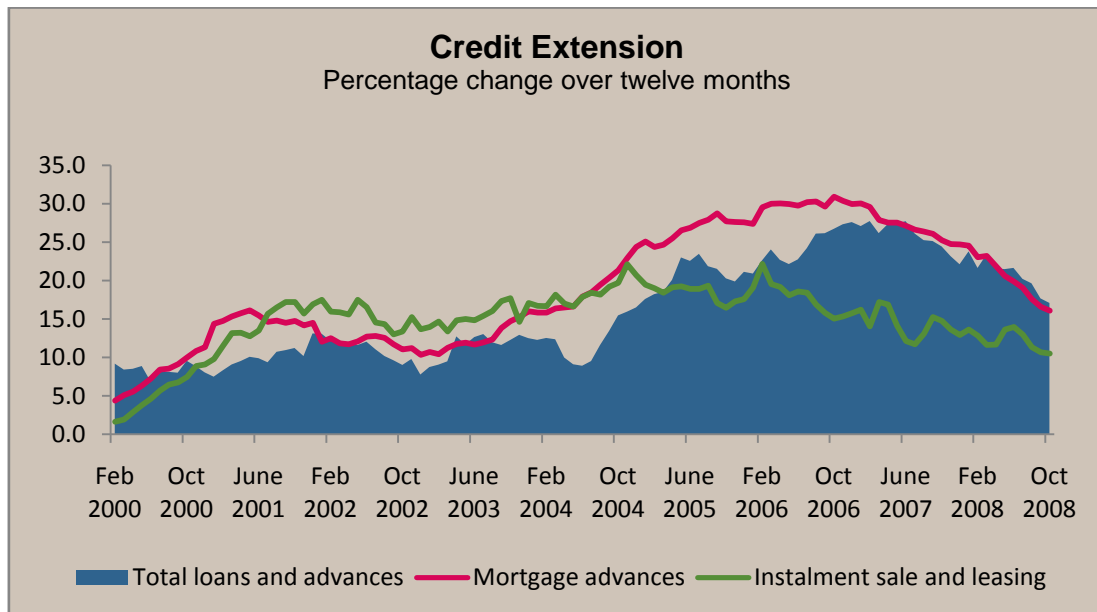
Consumer Price Index (CPIX) Inflation and Prime Overdraft Rate: January 1998 to July 2008
Source: South African Reserve Bank (SARB)

Growth in demand for consumer credit is slowing

The slowdown in the demand for credit is a response to both the higher interest rates under the South African Reserve Bank's (SARB) tighter monetary policy and the National Credit Act, which makes it that much harder for consumers to qualify for credit.

The Reserve Bank uses interest rates as tool to control consumer spending, especially spending funded by debt. The extension of credit to the private sector, such as mortgage advances and credit card debt, has eased off. This gives further motivation to the Reserve Bank to start easing monetary policy by reducing interest rates.

The graph below shows that the rate of growth in demand for housing mortgages, instalment sales and leasing has dropped in October 2008:



Mortgage loans, instalment sales and leasing February 2000 to October 2008

Source: SARB

Don't lose faith!

Overall, while 2009 is still expected to be a tough year for consumers, we believe that we have seen the turning point for inflation and interest rates should start coming down early in the year. The global crisis has affected us but our economy is in a fairly good condition to weather the storm.

We encourage you to keep your financial discipline and stick to your savings and investment plans. Keep your risk cover, even if it is at a slightly reduced level. You may not be able to obtain affordable insurance cover later when you need it.